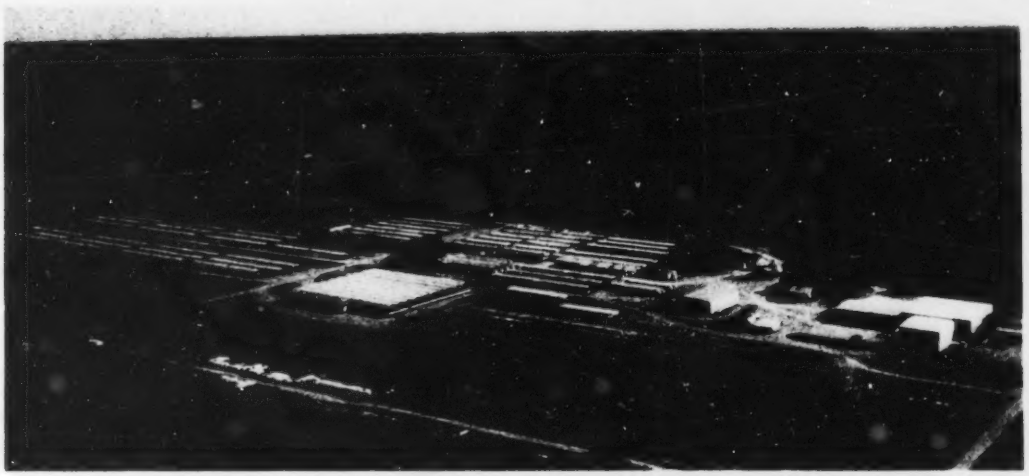
Pineland
Forest Nursery

Annual Report



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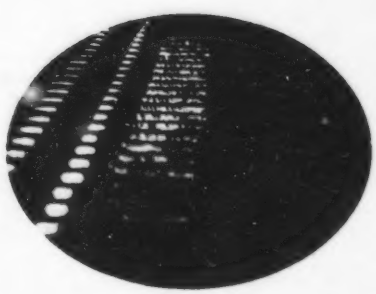

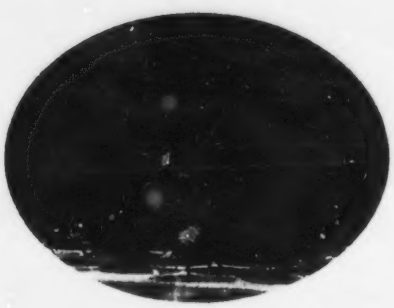

101-00319/

MINISTER OF CONSERVATION

Legislative Building
Winnipeg, Manitoba, CANADA
R3C 0V8

August 4, 2000

His Honour the Honourable Peter M. Liba, C.M., O.M.
Lieutenant Governor of Manitoba
235 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Your Honour:

I have the privilege of presenting the Pineland Forest Nursery Annual Report for the year ending March 31, 2000.

Sincerely,

Oscar Lathlin
Minister

Manitoba 2000
Our Past. Our Future. Our Celebration.
Notre passé. Notre avenir. Notre fête.

Manitoba

Deputy Minister of
Conservation

Legislative Building
Winnipeg. Manitoba CANADA
R3C 0V8

Honourable Oscar Lathlin
Minister of Conservation
333 Legislative Building
Winnipeg, Manitoba
R3C 0V8

Dear Minister:

I am pleased to submit the fifth Annual Report for Pineland Forest Nursery for the year ending March 31, 2000.

Pineland Forest Nursery has completed a fifth successful year as a Special Operating Agency. Pineland continues to compete successfully for seedling contracts in the market place with 65% of revenue derived from the private sector in Manitoba, Ontario, Saskatchewan, Alberta and the United States.

For the year ending March 31, 2000 Pineland Forest Nursery reports a profit of $119,000. Since Pineland Forest Nursery's designation as a Special Operating Agency, total profit is an impressive $791,300. Pineland Forest Nursery employs local residents for a total annual payroll in excess of $2 million.

The Advisory Board is proud to be associated with Pineland Forest Nursery and is confident that the Agency will continue to meet the challenges of the future.

Yours sincerely,

Norman Brandson, Chairperson
Pineland Forest Nursery
Advisory Board

Manitoba 2000

Our Past. Our Future. Our Celebration.
Notre passé. Notre avenir. Notre fête.

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Advisory Board Members

Mr. Norman Brandson Deputy Minister Manitoba Conservation	Chairman
Mr. Ken Holme Owner & Operator K.C.'s Outfitting	Member
Mr. Andre Chaput Director of Finance Secretary Treasurer Division Scolaire Franco/Manitobaine #49	Member
Mr. Doug Hunt Forestry Superintendent Tolko, Manitoba	Member
Mr. Gord Jones Director of Forestry Manitoba Conservation	Member
Ms. Shelly Rzyhak Staff Representative Pineland Forest Nursery	Member
Dr. Merlin Shoesmith Assistant Deputy Minister Manitoba Conservation	Member (ex officio)
Ivan Balenovic Chief Executive Officer Pineland Forest Nursery	Member (ex officio)

Agency Management

Ivan Balenovic	Chief Executive Officer
David Flight	Manager, Shipping, Seed Services, Bareroot, Poplar Program
Richard Lepage	Manager, Quality Control
Barb North	Manager, Operations, Tree Improvement, Security
Trevor Stanley	Manager, Seedling Production, Marketing & Client Services
David Turchyn	Acting Manager, Maintenance Operations

Pineland
Forest Nursery

March 31, 2000 completes Pineland Forest Nursery's fifth successful year as a Special Operating Agency. Seedling production for the year was at 100% capacity, completely utilizing the 7.35 acres of greenhouse growing space available. Gross sales for the year were up 17% surpassing the $4 million mark with a respectable profit of $119,000 compared to a loss the previous year of $27,000. Pineland has become a key business in the region and is the largest employer in the area with an annual payroll in excess of $2 million.

The primary focus throughout the year was on improvements that impact efficiency and quality. A comprehensive quality control program was implemented to ensure early detection of symptoms that lead to mortality, or a reduction in quality. Once detected, problems are identified and a technical team determines and initiates the best possible management prescription.

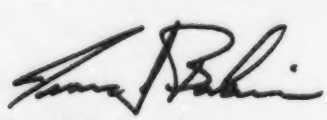
During the fiscal year, Pineland invested $165,000 to infrastructure improvements that have a direct impact on product quality. The quality control program in conjunction with the infrastructure improvements directly contributed to achieving an impressive 99.7% quality and +2.6% of target in the current 2000 crop compared to 95.3% quality and -1.5% of target in the overwinter 1999 crop. Our quality control program forms the basis for marketing Pineland's products and services.

Early in the fiscal year two of Pineland's Senior Management Team left to pursue other opportunities. By undertaking a major re-organization and re-defining of responsibilities, we were able to meet the challenges and fill the voids without filling the vacancies.

Pineland's greatest asset continues to be its dedicated, loyal and knowledgeable employees. I will take this opportunity to thank and acknowledge Pineland's Senior Management Team, and all of the employees who put forth a prodigious effort and overcame many challenges during a year of significant change and uncertainty.

Our greatest challenge in the future will revolve around overcoming increasing costs pertaining to supplies, energy and labour. The market largely dictates the selling price of seedlings, and with Pineland operating at 100% capacity the opportunity to increase revenue and still remain competitive is limited. To remain financially viable, Pineland must continue to pursue initiatives that promote increased efficiency without compromising quality.

Pineland Forest Nursery management and staff thank the members of the Advisory Board and the Special Operating Agency Co-ordinator for their guidance and support throughout the year.



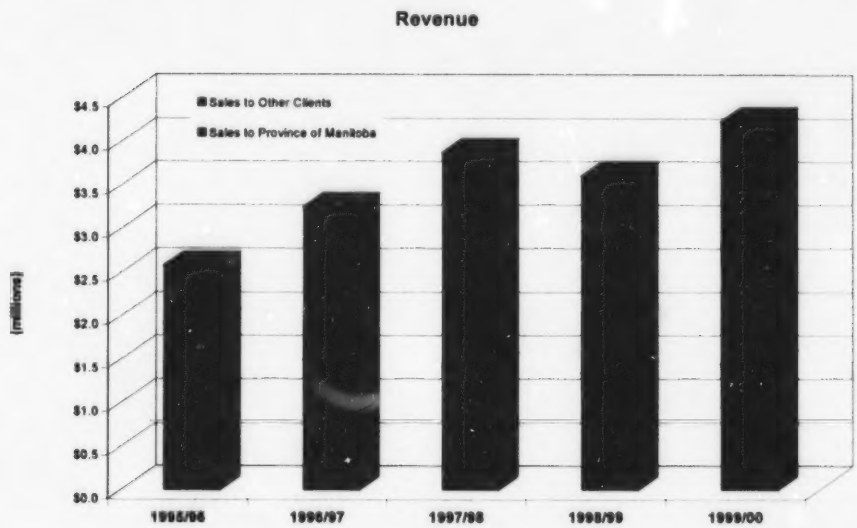
Ivan J. Balenovic
Chief Executive Officer

BACKGROUND

In 1953, 128 hectares of land was acquired by Manitoba, approximately 100 kilometres east of Winnipeg on the Trans Canada Highway near Hadashville, for the establishment of Pineland Forest Nursery. The nursery was to service all the requirements of the province of Manitoba's reforestation programs. An expansion of the nursery was accomplished later through the 1987 Canada/Manitoba Forestry Agreement. This included a tree improvement facility, additional greenhouses and a cold storage facility.

On April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency (SOA). This has enabled the nursery to expand its client base from one client, the province of Manitoba, to the present client base, which includes other provincial governments and large forestry companies in Alberta, Saskatchewan, Manitoba, Ontario and the United States.

By growing its client base and increasing production since being designated a Special Operating Agency, Pineland Forest Nursery has become a key business in the community and the largest employer in the area with an annual payroll in excess of $2 million. Revenues for the period since being designated a SOA have increased 65%.



AGENCY STRUCTURE

Pineland Forest Nursery is an organization within the departmental structure, and is accountable to the Assistant Deputy Minister, the Deputy Minister and the Minister of Conservation for operational and financial performance. The Agency operates outside the Consolidated Fund, under the Special Operating Agencies Financing Authority (SOAFA), which holds title to the Agency's assets, provides financing for operations, and is responsible for the Agency's liabilities.

Governance and accountability are supported by the Agency's compliance with its Operating Charter, Transfer Agreement, Management Agreement, General Manual of Administration policies (except where exempt as outlined in the Charter) and by The Special Operating Agencies Financing Authority Act.

The day-to-day operations of the Agency are the responsibility of the Chief Executive Officer who plans and reports to the Agency's Advisory Board. The Advisory Board is chaired by the Deputy Minister of Conservation, with representation from both government and non-government bodies. The Assistant Deputy Minister of Conservation and the Chief Executive Officer are ex officio members of the Board. Other members include two client representatives, two representatives from the private sector knowledgeable in private sector business, and one elected representative from Pineland's staff.

The role of the Advisory Board is to:

- offer advice on the Agency's direction and objectives, performance, business practices, marketing strategies, management and financial reporting requirements;
- review the Agency's Quarterly Financial Reports, Annual Report and Annual Business Plan; and,
- offer support regarding private, public and client sector issues and initiatives.

MANDATE

Pineland Forest Nursery was mandated through a Treasury Board approved Business Plan to:

- provide seed extraction, testing, cleaning, grading, storage and inventory services for all seed used in reforestation practices;
- produce container seedlings for Manitoba reforestation programs and other clients across Canada and the United States;
- provide support services for the provincial tree improvement program;
- maintain a stock identification system for the province, and provide professional information to field staff.

PINELAND FOREST NURSERY'S MISSION

To make a direct and positive contribution to the success of reforestation programs by continually improving and supplying superior quality products and services, to clients in Canada and the United States.

PINELAND FOREST NURSERY'S VISION

For Pineland Forest Nursery to become a financially self-sustaining operation and to be recognized as one of the best seedling production facilities in Canada.

OPERATING PRINCIPLES

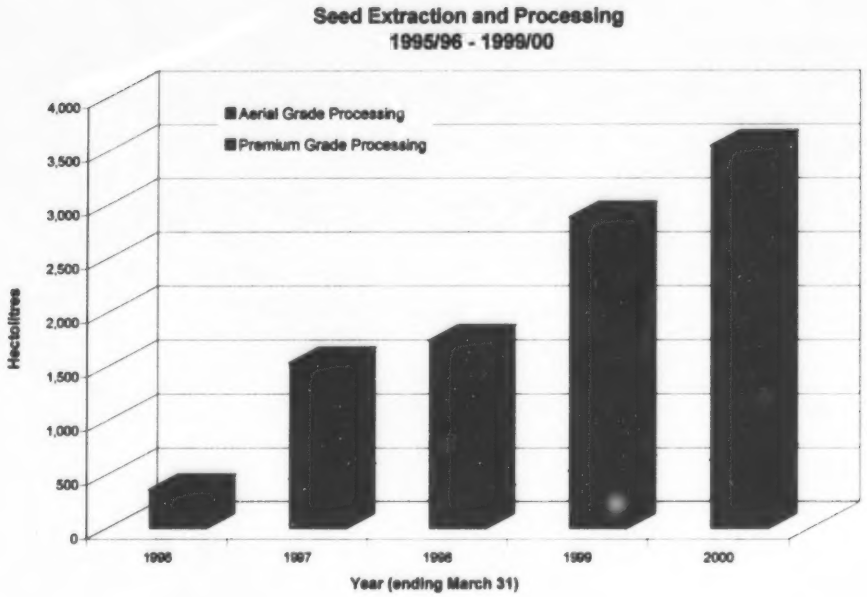
Pineland Forest Nursery's operating principles are:

- to run agency operations that are financially self sustained and in accordance with sound business practices;
- to follow the best private and public sector practices and encourage staff involvement in all aspects of the operation;
- to ensure satisfactory levels of confidence by the Agency's stakeholders;
- to introduce new technologies to the Agency's operations on a business-case basis and,
- to develop new products in conjunction with clients and their requirements.

PRODUCTS AND SERVICES

Seed Services

Pineland is the only provider of forestry seed extraction services in the province of Manitoba. In 1999/2000, 3,540 hectolitres of cones were processed which represents an increase of 23% over the previous year and an increase of 900% since becoming a Special Operating Agency.



Pineland offers two levels of seed cleaning, aerial (basic) grade and premium (greenhouse) grade. Aerial grade cleaning is almost exclusively jack pine. The seed is cleaned to a minimum of 96% purity and is used for broadcast sowing from an aircraft or direct seeding onto the site. Premium grade processing is required where seed of higher purity (>99%) is needed, generally for greenhouse use. As well, Pineland has the capability to do specialized, small scale cleaning of seed where very small lots (i.e. <1 litre) of cones are processed, such as those for genetic research trials where cone lots from individual trees are required.

Once processed, the seed is stored in large, airtight plastic containers, and can be safely kept in Pineland's cold storage facilities at -3°C for more than ten years (if required) before use. To ensure quality is maintained, seed in cold storage is sampled periodically for purity, moisture content, weight and viability.

Bareroot Production

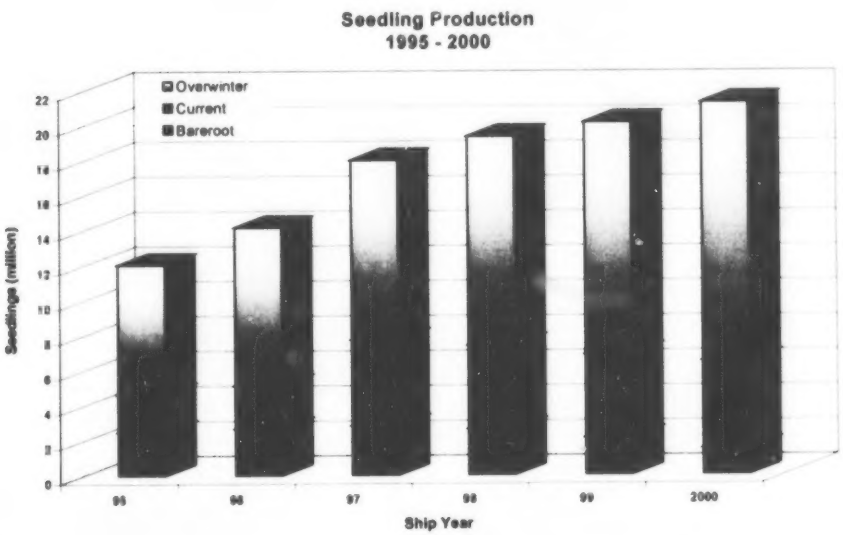
Hardy bareroot seedlings are seedlings grown outdoors and later delivered to their final planting site with no soil or container around their roots. Jack pine, red pine and scots pine are all grown as seedbed crops at Pineland, while white and black spruce are grown as transplants.

Seedbed crops are grown to harvest size in the soil in which they are originally seeded, while transplants are either started in a greenhouse or in a densely sown bareroot bed, then transplanted to another outdoor bed for their next growth phase.

Greenhouse Production

Seedlings are grown in multi-pot containers inside 65 (7.35 acres) climate controlled greenhouses, where growing conditions are meticulously monitored and optimized. The gutter connected complex and the different types of growing structures on site permits Pineland Forest Nursery to sow seedlings in any month of the year. This flexibility ensures that seedlings meet the precise specifications required for each of our client's planting sites.

Three types of container stock are grown - current, overwinter and double flush. Current crop seedlings are sown in winter to be lifted, graded and packaged in the summer for immediate shipment. Overwintered crop seedlings are sown in spring to be lifted, graded and packaged in the late fall, then stored in one of three large freezers and shipped in winter for snow cache or in the spring for immediate planting. Double flush crop seedlings are started as a current crop, put through artificial dormancy, grown a second time and packaged as an overwinter crop. The double flush crop (included with overwinter in the graph below) will in effect, grow the equivalent of a two year old tree in just one year. Total seedling production has increased 78% since Pineland has become a Special Operating Agency.



Lifting, Grading, Storage and Delivery

While seedlings are being lifted in the packaging building they are graded according to the client's individual specifications which are posted in height and diameter. Graders also make assessments related to appropriate root and stem structure as well as foliage colour. Seedlings that do not meet specifications are discarded.

Current crop seedlings are lifted in the summer, then packaged in boxes and immediately loaded into refrigerated highway trailers which are maintained at +1°C to +3°C for delivery to the planting site.

Overwinter crop seedlings are lifted in the fall, then packaged in boxes and stored frozen at -3°C for delivery in the winter or spring. In total, Pineland's cold storage facilities can accommodate 20 million seedlings.

To most of our major customers, seedlings are delivered to the planting site by truck in our own refrigerated trailers. In remote planting areas that are only accessible by truck in winter using ice roads, seedlings are delivered and stored on-site in specially constructed snow caches, which keep the seedlings frozen and protected until spring planting.

Quality Control

To ensure that our customers receive seedlings that are of the highest possible quality, all of the seedlings grown at Pineland are constantly evaluated and monitored. Container seedling lots are sampled and evaluated biweekly for growth progression and soil testing. Once the stock has hardened off seedling lots are also evaluated for bud development. Knowledge of the degree of bud initiation or development within a group of seedlings is very important, as bud formation marks the transition from shoot elongation to shoot dormancy, and is associated with the development of frost hardiness and increased resistance to stresses.

At Pineland, we dissect the buds of sample seedlings and use the timing of bud initiation and needle primordia development as tools for assessing the readiness of crops for overwintering. When the initiation of new primordia ceases, buds are fully developed, marking the point at which large increases in frost hardiness develop. In addition, by counting needle primordia, we can also provide our customers with the potential for growth they can expect from their seedlings in their first growing season.

Frost hardiness monitoring begins six weeks after bud initiation, in a progression of tests in which shoot tips are collected from sample seedlings, frozen at a known temperature, brought back to room temperature and then immersed in distilled water. The electrical conductivity of the water is then measured, to provide an accurate gauge of the amount of electrolytes that have been released into the solution by the seedlings due to cell damage. The less electrolytes released, the hardier the seedlings have become. Seedlings are subjected to freezer tests at -40°C. Only when they are hardy to this level are they considered hardy enough to withstand frozen storage.

All seedlings undergo quality monitoring while stored at Pineland. Seedlings are randomly selected, potted, and placed in a controlled greenhouse environment for twenty-one days. After the test growth period has ended, the trees are unpotted and assessed for root regeneration and shoot growth. Monitoring stock allows us to ensure that our customers always receive vigorous seedlings that will survive and thrive in their final planting site.

A random sample from each load is taken prior to shipping and out-planted in a control area outdoors, where they are left to grow naturally on their own. A sample of all snow cache seedlings are also returned to Pineland for out-planting. Any problems our clients may experience in the field with a particular shipment can be compared to the planted stock for possible cause determination. At the end of the growing season out-planted trees are assessed for survival and growth, to give a further indication of the quality of the shipment.

Offsite Field Consultation

Our responsibility and commitment to producing superior trees does not end when the trees are shipped to the client. The experience and knowledge of Pineland's staff is utilized by our clients and their tree planting contractors as needed in order to maximize reforestation effectiveness.

Pineland's offsite consultation involves meeting with clients and assessing the sites they will be planting to determine what stock types would be suited for their sites. We also review previous planting sites to determine growth progression. If there are problems with any of the plantations we are best able to resolve them by working directly with the client in the field to determine the most likely cause of the problem. In addition to assessing crops and solving problems the field consultations afford us the opportunity to work with the clients in the development of new products. There is significant value in being involved with the clients specific needs first hand in order to determine how best to improve the products and services we provide.

Tree Improvement

For many years, Pineland Forest Nursery has provided a service to Manitoba's tree improvement program, including seed extraction, growing family tests, grafting, accelerated growth of grafted stock in our greenhouses, planting and maintenance of clone banks and seed orchards. Pineland Forest Nursery provides growing, monitoring, irrigation and technical consultation services to the provincial Dutch Elm Disease research program.

Poplar Program

In conjunction with an eastern university and an Ontario forestry company, Pineland is undertaking a hybrid poplar research program. Poplar stool beds were established in 1997 to identify hybrid clones that are genetically superior, hardy and demonstrate certain commercially desirable characteristics. Since the stool beds were established, the total number of families growing have been significantly reduced through a culling process that eliminates trees that are considered less superior. Annually, the superior poplar trees are cut into eight-inch lengths for direct planting in locations where they will grow to maturity for future commercial harvesting.

MARKETS

Environmental Analysis

In the 1980's, seedling production was increasing across the country, with a tendency for artificial reforestation and governments paying for the majority of reforestation. In the 1990's, with governments focusing on reducing debt load, seedling production has decreased dramatically. Changes were made to include a focus on natural regeneration methods and a shift from government to industry being responsible for reforestation. Commitments to ecosystem-based forest management and sustainable forest management certification has elevated the importance of reliable production of high quality seedlings.

Trends in seedling demand have shifted from bareroot seedlings to container grown seedlings. Pineland's ability to diversify and produce seedlings that are custom designed for specific uses has proven to be one of its major assets in the new era of reforestation. Seedling quality has been at the forefront in the last five years as a result of industry involvement in the reforestation efforts, where seedling performance is considered critical in total reforestation costs.

The major trend in nursery production in Canada over the next decade is projected to be high quality seedlings that survive in the field. Industry and government cannot afford to replant sites where seedlings have died due to poor quality. Thus the "quality" of seedlings will drive Pineland's success, and not just the cost.

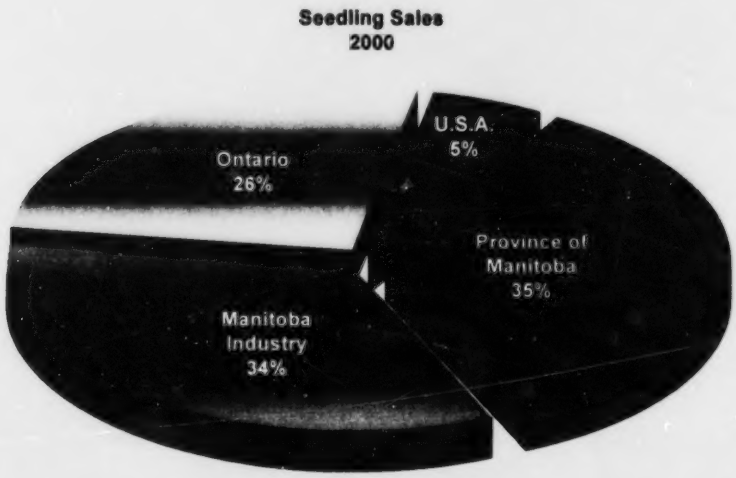
Target Markets

The majority of revenue is generated through the sale of seedlings. Other revenue is generated through the sale of services for seed extraction and cleaning, the delivery of seedlings, and other silvicultural related services.

Clients expect a high quality product for a reasonable price. As the cost for reforestation increases, the demand for seedlings with distinct quality characteristics has become more important for successful reforestation. Seedlings will have to be grown to match specific sites. This is to Pineland's advantage as the expertise in growing high quality site specific seedlings is available at Pineland. The focus of Pineland's clients will be toward quality seedlings at competitive prices, rather than marginal crops at very low prices.

Presently the total annual Canadian market demand is estimated to be 750 million seedlings with the demand in Pineland's identified geographic target area at about 150 million seedlings. Pineland Forest Nursery is presently operating at 100 percent capacity and currently supplies about 15 percent of its target market.

Usual clients include, forest industry companies in Alberta, Saskatchewan, (no sales this year) Manitoba, Ontario and the United States as well as provincial governments and the federal government. On a smaller scale, cottage associations, woodlot owners, Christmas tree growers, utility companies, mining companies and soil conservation authorities are clients either directly or indirectly.



Competitive Analysis

The ability to produce some forty different stock types with bareroot and greenhouse seedlings is one of Pineland's most important marketing strategies. The Nursery is capable of servicing clients with high quality seedlings with a full array of morphological and physiological characteristics as required.

Also important to the future success of the agency is the ability to develop new stock types as the need arises. Trials on new types of containers, red pine, white pine and hybrid aspen are on going. The establishment of a hybrid poplar program addressed the need for fast growing, high quality wood in close proximity to the customers mill becomes a factor.

The reliability of Pineland Forest Nursery to meet production targets is a major consideration in the competitive analysis. Clients that request seedlings depend on those seedlings to carry out reforestation activities when the seedlings are delivered. Clients spend a substantial amount of money preparing planting sites and preparing contractual agreements for the planting. When the total seedling requirement is not fulfilled, two substantial expenses are incurred by the client, that of breaking contractual agreement for planting and that of leaving sites for an additional year before planting, possibly requiring re-treatment.

Reliability is a key factor in clients assessing the suppliers of seedlings. Pineland Forest Nursery has an excellent record of meeting seedling requirements. Reliability, quality and service are Pineland's strongest marketing tools.

CRITICAL SUCCESS FACTORS

Pineland identified four critical success factors with specific objectives for each, to ensure the long-term success of the Agency. Achievements during the 1999/00 fiscal year were as follows:

1. To run operations in a business-like manner and become financially self-sustaining:

1.1 Achieve financial targets as per pro-forma financial statements: (000's)

1.1.1 The original net income (loss) target for 1999/00 was ($7). In 1999 the target was revised to $151. Actual net income for the fiscal year was $119. There was a $31 increase in the Pension Liability calculation after the revision otherwise the revised target would have been achieved.

1.1.2 The original capital expenditure projection for 1999/00 was $380. In 1999 the projection was revised to $211. The actual capital expenditure for the fiscal year was $281. The difference was due to an unexpected requirement to purchase additional seedling trays as a result of a special client request.

1.2 Increase seedling revenue.

1.2.1 The original seedling revenue target for 1999/00 was $3,233. In 1999 the target was revised to $3,711. The actual revenue from seedling sales for the fiscal year was $3,967.

2. To maintain a reliable service that provides quality products and demonstrates integrity on a continuous basis.

2.1 Ensure that clients are satisfied with the services provided at Pineland and not more than one complaint is received.

2.1.1 One complaint was received. A comprehensive quality control program was implemented during the year.

2.2 Ensure seedlings meet quality standards and targets.

2.2.1 The overwinter crop achieved 95.3% quality and -1.5% of target. The original goal was 90% quality, +/- 10% of target.

2.2.2 The current crop achieved 99.7% quality and +2.6% of target. The original goal was 90% quality, +/- 10% target, revised in 1999 to 95% quality, +/- 5% target.

2.3 Increase number of products available to clients.

2.3.1 One new product was added, that has gained acceptance with our clients.

2.4 Increase the number of cones processed to 3,500 hectolitres.

2.4.1 3,540 hectolitres of cones were processed, an increase of 22.9% over the previous year.

3. Increase the client base to ensure that the agency remains competitive.

3.1 Increase the market share of existing clients.

3.1.1 Pineland is supplying three clients with almost 100% of their seedling requirements.

3.2 Add clients to the client base.

3.2.1 One client was added to the base and all other clients were maintained.

3.3 Provide exposure for Pineland in the market place.

3.3.1 Staff attended five events that exposed Pineland, its products and services.

3.3.2 Pineland staff initiated on-site field assessments with most of our major clients.

3.3.3 Clients have access to quality control data on a regular basis via e-mail, regular mail or personal visits either to our site or theirs.

4. Ensure that the organization is adequately prepared to meet the challenges ahead.

4.1 Ensure key personnel have the skills required to perform required duties.

4.1.1 Staff are trained and motivated through regular staff meetings at different levels and they attend outside training courses.

4.2 Develop marketing and after sales service.

4.2.1 One staff person is responsible for marketing and client relations, with full support from all other key staff.

4.3 Involve employees in developing Agency Policy.

4.3.1 The policy review committee reviewed Pineland's policies and a policy manual will be completed in the following fiscal year.

FINANCIAL RESULTS

Summary
(000's)

	Actual 2000	Revised Budget	Revised Budget Variance	Original Budget	Original Budget Variance	Actual 1999	Actual 1999 Variance
Total Revenue	**$4,247**	**$3,847**	**$ 400**	**$3,495**	**$ 752**	**$3,601**	**$ 646**
Operating Expenditures	3,567	3,147	420	2,945	622	3,043	524
Amortization	414	403	11	380	34	416	(2)
Interest Operating Loan	125	124	1	155	(30)	144	(19)
Interest Capital Loan	22	22	0	22	0	25	(3)
Total Expenditures	**4,128**	**3,696**	**432**	**3,502**	**626**	**3,628**	**500**
Net Earnings	**119**	**151**	**(32)**	**(7)**	**126**	**(27)**	**146**

Actual 2000 versus Revised Budget

Total Revenues for Pineland Forest Nursery were $400 (10%) over the Revised Budget due in part to about 1.2 million (6%) additional seedlings produced, and in part to an average selling price per seedling increase of about .7 cents (5%) due to sales of larger stock types.

Total Expenditures were $432 (12%) over the Revised Budget due in part to the increased production, the higher cost to produce larger stock types, and a $31 (34%) increase in the Pension Liability calculation.

Net Earnings were $32 (21%) under the Revised Budget due to the increase in the Pension Liability calculation.

Actual 2000 versus 1999

Total Revenues for Pineland Forest Nursery were $646 (18%) over the same period last year due to increased seedling production, and higher average selling price per seedling due to sales of larger stock types.

Total Expenditures were $500 (14%) over the same period last year due in part to the increased production, the higher cost to produce larger stock types, and the increase in the Pension Liability calculation.

Net Earnings were $146 over the same period last year due to increased sales and overall efficiency improvements.

Pineland
Forest Nursery

MANAGEMENT REPORT

The accompanying financial statements are the responsibility of the management of Pineland Forest Nursery and have been prepared in accordance with generally accepted accounting principles. In management's opinion the financial statements have been properly prepared within reasonable limits of materiality, incorporating management's best judgement regarding all necessary estimates and all other data up to May 19, 2000.

Management maintains internal controls to properly safeguard the assets and to provide reasonable assurance that the books and records from which the financial statements are derived accurately reflect all transactions and that established policies and procedures are followed.

The responsibility of the Auditor is to express an independent opinion on whether the financial statements of Pineland Forest Nursery are fairly represented in accordance with generally accepted accounting principles. The Auditor's Report outlines the scope of the audit examination and provides the audit opinion.

Ivan J. Balenovic
Chief Executive Officer

May 19, 2000

PINELAND FOREST NURSERY

Financial Statements
Year Ended March 31, 2000

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

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March 31, 2000

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MAGNUS & BUFFIE

CHARTERED ACCOUNTANTS

906 - 386 Broadway, Winnipeg, Manitoba, Canada R3C 3R6

Telephone (204) 942-4441

Fax (204) 944-0400

AUDITORS' REPORT

To the Special Operating Agencies Financing Authority

We have audited the balance sheet of the Pineland Forest Nursery, an Agency of the Special Operating Agencies Financing Authority, Province of Manitoba as at March 31, 2000, and the statements of earnings and retained earnings and cash flow for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Agency as at March 31, 2000, and results of its operations and cash flow for the year then ended in accordance with generally accepted accounting principles.

Magnus & Buffie

Chartered Accountants

May 19, 2000

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA
BALANCE SHEET
(in thousands)
March 31, 2000

	2000	1999 (Note 9)
ASSETS		
CURRENT ASSETS		
Cash	$ 4	$ 4
Receivables (Note 3)	192	240
Unbilled revenue (Note 2)	221	218
Inventory (Note 2)	157	93
Prepaids	31	43
	605	598
TERM DEPOSITS (Note 4)	284	272
RECEIVABLE FROM PROVINCE OF MANITOBA (Note 5)	303	303
CAPITAL ASSETS (Notes 2 and 6)	3,021	3,125
	$4,213	$4,298
LIABILITIES		
CURRENT LIABILITIES		
Working capital payable (Note 7)	$2,041	$2,340
Payables and accruals	215	227
Current portion of long term debt	69	33
	2,325	2,600
LONG TERM DEBT (Note 8)	180	216
LONG TERM LIABILITIES		
Pension benefits (Note 9)	455	334
Severance pay benefits (Note 10)	163	177
	618	511
	3,123	3,327
EQUITY		
CONTRIBUTED EQUITY (Note 11)	356	356
RETAINED EARNINGS	734	615
	1,090	971
	$4,213	$4,298

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA
STATEMENT OF EARNINGS AND RETAINED EARNINGS
(in thousands)
Year ended March 31, 2000

REVENUE	
PRIVATE SECTOR	
Overwinter	$1,815
Current	741
Bareroot	3
Seed services	172
Poplar program	30
Other	28
	2,789
PROVINCE OF MANITOBA	
Overwinter	971
Current	87
Bareroot	350
Seed services	1
Tree improvement	4
Other	33
	1,446
Term deposit interest	12
	4,247
EXPENSES	
Salaries and benefits	2,036
Supplies	489
Natural gas and hydro	422
Repairs and maintenance	313
Property taxes and insurance	73
Office	70
Departmental services and professional fees	53
Freight	49
Travel	37
Marketing	18
Miscellaneous	7
Amortization	414
Interest - operating loan	125
Interest - capital loan	22
	4,128
NET EARNINGS FOR THE YEAR	119
RETAINED EARNINGS, beginning of year	615
RETAINED EARNINGS, end of year	$ 734

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA
STATEMENT OF CASH FLOW
(in thousands)
Year Ended March 31, 2000

	2000	1999
CASH FROM (USED IN):		
OPERATING ACTIVITIES		
Net earnings (loss) for the year	$ 119	$ (27)
Amortization	414	416
Pension expense	121	81
Severance expense	(14)	35
	640	505
Changes in non-cash working capital balances (Note 13)	(19)	(266)
	621	239
INVESTING ACTIVITIES		
Acquisition of capital assets	(310)	(557)
Increase in term deposits	(12)	(272)
	(322)	(829)
FINANCING ACTIVITY		
Long term debt repayment		(30)
CHANGE IN CASH	299	(620)
CASH AND EQUIVALENTS, beginning of year	(2,336)	(1,716)
CASH AND EQUIVALENTS, end of year (Note 13)	$(2,037)	$(2,336)

1. NATURE OF ORGANIZATION

In 1953, Pineland Provincial Forest Nursery was established to meet all the nursery stock requirements of the province at one location. Prior to 1953 there were several small nurseries located throughout the province.

Effective April 1, 1995, Pineland Forest Nursery was designated as a Special Operating Agency under The Special Operating Agencies Financing Authority Act, Cap. S185, C.C.S.M., and operates under a charter approved by the Lieutenant Governor in Council.

Pineland Forest Nursery is financed through the Special Operating Agencies Financing Authority (Financing Authority). The Financing Authority has the mandate to hold and acquire assets required for and resulting from Agency operations.

A Management Agreement between the Financing Authority and the Minister of Conservation assigns responsibility to the Agency to manage and account for the agency related assets and operations on behalf of the Financing Authority.

Pineland Forest Nursery continues to be part of Manitoba Conservation under the general direction of the Assistant Deputy Minister of Conservation and ultimately the policy direction of the Deputy Minister and the Minister.

Pineland Forest Nursery remains bound by relevant legislation and regulations. It is also bound by administrative policy, except where specific exemptions have been provided for in its charter in order to meet business objectives.

Pineland Forest Nursery is economically dependent on the Province of Manitoba, because it derives a significant portion of its revenue from the Province and all of its financing requirements through the Financing Authority.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Reporting: The financial statements of the Agency are presented in accordance with generally accepted accounting principles. The significant accounting policies are summarized as follows:

Inventory:
Supplies - inventory is recorded at the lower of cost and replacement cost.

Capital Assets: Capital assets are amortized over their estimated lives as follows:

Greenhouses, coldframes, freezers, holding area	10% declining balance
Minor service buildings, major pumphouse	10% declining balance
Major service buildings, propane conversion	10% declining balance
Equipment	20-30% declining balance

Revenue recognition: Revenues are recognized on a percentage of completion basis. Any excess of revenue recorded on a percentage of completion basis over amounts billed is recorded as unbilled revenue.

3. RECEIVABLES

	2000	1999
Province of Manitoba	$ 36	$ 65
Other	156	175
	$192	$240

4. TERM DEPOSITS

The Agency has invested funds in term deposits with the intention that these funds will be used to meet their pension obligations.

5. RECEIVABLE FROM PROVINCE OF MANITOBA

The receivable from the Province of Manitoba is for vacation entitlements earned by the employees of the Agency prior to creation of the Special Operating Agency, for severance pay benefits prior to April 1, 1998 and for adjustments to the pension benefits liability for which the Province has accepted responsibility (Note 9). The balance is comprised of:

	2000	1999
Vacation entitlement	$ 99	$ 99
Severance pay benefits	142	142
Pension benefits	62	62
	$303	$303

6. CAPITAL ASSETS

	Cost	Accumulated Amortization	Net Book Value 2000	Net Book Value 1999
Buildings	$3,610	$1,187	$2,423	$2,514
Equipment	1,045	447	598	611
	$4,655	$1,634	$3,021	$3,125

7. WORKING CAPITAL PAYABLE

The Financing Authority has provided the Agency with an authorized line of working capital of $3,000 of which $2,041 (1999 - $2,340) was advanced at March 31, 2000.

8. LONG TERM DEBT

The Financing Authority assumed a loan payable to the Province of Manitoba on behalf of the Agency as specified in the Management Agreement. The loan payable was issued for $356 at an interest rate of 9% repayable by the Agency in annual instalments of $55, principal and interest maturing in 2005.

Principal repayments in each of the next five years are as follows:

2001	69
2002	39
2003	43
2004	47
2005	51

9. PENSION BENEFITS

Employees of the Agency are eligible for pension benefits in accordance with provisions of The Civil Service Superannuation Act. In accordance with an agreement with the Province of Manitoba, Special Operating Agencies (SOA's) are only responsible for pension liability incurred for their employees from the date of designation as an SOA. The methodology for calculating the liability has been determined in conjunction with the Province, which accepts responsibility for pension liability for prior service as well as for any variance resulting from the calculation.

The Province has determined that, due to changes in the calculation methodology and its application, the Agency's pension benefits liability as at March 31, 1999 was $334 rather than $272 as previously calculated and has accepted responsibility for this variance. Accordingly, the comparative figures have been reclassified to reflect a pension benefit liability of $334 and a receivable from the Province of $62 (Note 5).

10. SEVERANCE PAY BENEFITS

Effective April 1, 1998, the Agency is recording accumulated severance pay benefits for its employees. Severance pay is determined by multiplying years of service, to a maximum of fifteen years, by the weekly salary at date of retirement, provided the employee reaches nine years of service and retires from the Agency. The estimate is based upon the method of calculation set by the Province of Manitoba.

The Province has accepted responsibility for the severance benefits accumulated by the Agency's employees to March 31, 1998. Accordingly, the opening severance pay liability balance as at April 1, 1998 of $142 was completely offset by a receivable from the Province. There are no terms of repayment for this receivable and the amount will remain fixed at $142.

11. CONTRIBUTED EQUITY

The Special Operating Agencies Financing Authority and the Province of Manitoba entered into a Transfer Agreement respecting the transfer from Manitoba to the Financing Authority of inventory and capital assets valued at $712 required for the continuing operations of Pineland Forest Nursery as at March 31, 1995. The Agency is responsible to repay the Special Operating Agencies Financing Authority the debt portion, in the amount of $356 (being ½ of the value of the assets) and to record the remainder as Manitoba's equity in the Financing Authority as related to the Agency's operations.

12. COMPARATIVE FIGURES

Due to significant changes in the classifications of revenue and expenses adopted in the current year, the presentation of comparative figures in the Statement of Earnings and Retained Earnings was not practical.

In addition, where comparative figures are presented they have been reclassified to conform with the presentation adopted in the current year.

13. SUPPLEMENTARY CASH FLOW INFORMATION

Changes in non-cash working capital balances:

	2000	1999
Receivables	$ 48	$ 216
Unbilled revenue	(3)	(135)
Inventory	(64)	30
Prepaids	12	(21)
Payables and accruals	(12)	(356)
	$(19)	$(266)

Cash and equivalents:

	2000	1999
Cash	$ 4	$ 4
Working capital payable	(2,041)	(2,340)
	$(2,037)	$(2,336)

14. YEAR 2000 COMPLIANCE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

Schedule 1

PINELAND FOREST NURSERY
AN AGENCY OF THE SPECIAL OPERATING AGENCIES FINANCING AUTHORITY
PROVINCE OF MANITOBA

SCHEDULE OF PUBLIC SECTOR COMPENSATION DISCLOSURE
(in thousands)
Year ended March 31, 2000

The Public Sector Compensation Disclosure Act requires all publicly funded bodies to disclose compensation to any employee or board member when such compensation exceeds $50 per annum. This information follows:

EMPLOYEE	TITLE	COMPENSATION	
		2000	1999
Ivan Balenovic	Chief Executive Officer	$69	
Richard Cameron	(Former) Chief Operating Officer		$75

PINELAND FOREST NURSERY

Appendices

01-Aug-00

PINELAND FOREST NURSERY

ORGANIZATION CHART